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The Soviet Economy in Perspective

The Soviet economy, the second largest in the world, has grown since 1950 from about one-third to about one-half the size of the US economy. The basic tenets of Soviet growth strategy have been:

- a high rate of investment in heavy industry, fuels and power, and construction; a lower rate in consumer goods and agriculture;
- emphasis on modern, capital-intensive technology in the favored sectors; use of old-fashioned, labor-intensive methods in the low priority sectors;
- large expenditures on education and science to raise the technical skills of the population;
- acquisition of advanced Western technology and equipment in exchange for raw materials.

Making and Implementing Economic Policy

This is a "command economy". Basic economic decisions are made by central administrative fiat rather than in the market place:

- The Politburo of the Communist Party makes the big economic decisions.

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- Given these guidelines, a huge bureaucracy -- headed by the Council of Ministers -- sets specific output goals, allocates manpower and materials, fixes wages and prices, and regulates incentives.
- Lower down, state-owned industrial facilities and collective farms translate the economic plans into action.

The Politburo -- the highest executive arm of the Central Committee of the Communist Party -- acts much like the board of directors of an enormous conglomerate. As chairman of the board, Party Secretary Brezhnev presides over Politburo weekly meetings where decisions on general economic priorities are reached by consensus. It is the Politburo that decides on the division of resources between military and civilian use and the distribution of investment between industry and agriculture.

The Council of Ministers -- the government's highest executive body -- can be likened to a senior management team of the conglomerate. Kosygin, as Chairman of the Council, has final responsibility for determining the output of all major commodities, distributing resources, and ensuring that plans are fulfilled. The organization under the Council includes the State Planning Commission

(Gosplan), more than 50 functional economic ministries (such as ferrous metallurgy, foreign trade, and agriculture), and a host of state committees and main administrations concerned with finance, prices, supply, and the like. The State Planning Commission is now working on an annual plan for 1975, the Tenth Five-Year Plan for 1976-80, and a new 15-year plan for 1976-90.

Each ministry oversees production by the plants and laboratories under its control. Most ministers and their deputies are senior executives, not policymakers. The Minister's main job is to see that plans are fulfilled. He also deals with production and staffing, allocates funds for investment and R&D, and decides matters that would come before the department head of a giant Western corporation.

Each plant and laboratory has its own production, technical, and financial plans. The manager's main "success indicator" is whether or not he meets the production target.

Strengths

The Soviet economy has great crude strength, based on a wealth of natural resources, a sturdy labor force half again as large as that of the United States, rapidly growing industrial facilities, and a tough, hard-driving leadership. Growth has been maintained by the brute force method of allocating 30% of output to investment (compared with 18% in the United States) and by extracting as large a work force as possible out of the populace. The result has been a rapid increase in the output of machinery and materials, the maintenance of a formidable defense establishment, and even some gains in the long-neglected consumer sector.

These strengths of the Soviet "command economy" have made it largely immune to some major problems now plaguing the market economies of the West -- double-digit inflation, international monetary crises, and the energy crunch.

- Tight central control over the economy has allowed great stability in prices and wages. Retail prices, with the exception of a few luxury items, have not risen since 1950. Wages have risen gradually as increased output permits gains in living standards.
- The Soviet drive for self-sufficiency has largely insulated the economy from disruptions in world trade and finance. Imports are equal to 3% of GNP, and only one-third of foreign trade is conducted with non-communist countries. Foreign trade is a government monopoly so that domestic prices of imported goods need not reflect fluctuations in world prices.

- The USSR's vast reserves of mineral fuels are adequate to meet current production needs and to support continued economic growth for many years.

Weaknesses

The Soviet leadership is aware of persistent problem areas threatening economic growth.

- Low productivity and the declining efficiency of investment. Despite a volume of investment per worker nearly equal to US levels in recent years, labor productivity in Soviet industry in only about half the US level. This is particularly serious since additions of men and equipment on the scale of the 1950s are no longer possible, and productivity gains must be the future source of growth. An added difficulty is the gradual exhaustion of easily accessible natural resources and the rising cost of exploiting new resources, many located in remote and frozen areas of Siberia.
- Technology gap. Although the latest technology is employed in some areas -- particularly in the defense and space industries -- technology in the civilian economy generally lags far behind that

of the West. The Soviet system is particularly ineffective in moving new ideas and products from the research and development stage into full assembly-line production. Moreover, Western equipment frequently is not as productive in a Soviet setting as it is on native ground. At the same time the USSR is struggling to catch up, the United States, Western Europe, and Japan are forging ahead with still newer technology.

- Rising consumer expectations. Though well-fed and clothed compared with past generations, Soviet consumers are increasingly aware of the disparity between Soviet and Western living standards. In 1973 the average Soviet citizen consumed only about one-third the goods and services of a US consumer. Consumer grievances are especially acute as to housing, long queues, the poor quality of durables, and the indifferent quality of repair and other services.
- Inefficient agriculture. Nearly a third of the labor force is still employed on the farm; equipment is badly operated and maintained; and the cost of producing grain and meat is far above world market prices.

Most of these problems seem rooted in the Soviet economic system itself, which is too centralized and clumsy for the increasingly complex economy. Central planning, for example, becomes more difficult as the number of links between producers, consumers, and suppliers multiplies.

The Soviet incentive system is also ill-equipped to deal with today's problems. Although it has been effective in maximizing physical output, it has created bottlenecks, idle capacity and unwanted inventories, sacrificed product quality, and discouraged innovation in production and management techniques.

Thus far the leadership has been unwilling to confront the fact that fundamental change in the economic system is needed. It has taken a few timid steps to reform the R&D sector and to reorganize industry; but it realizes that a truly effective reform would decentralize decision-making and thereby diminish Party control over the economy. In lieu of a direct attack on the problem, the leadership apparently believes that it can take a shortcut to technological progress and accelerated growth by importing Western machinery and technology. Some Soviet economists believe that the establishment of a vast computer network will permit efficient central control over the rapidly expanding number of price and output decisions. Soviet experience with the computer to date shows these economists are almost certainly wrong.